IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. .....

EDGAR C. GUTHARD, ACTIVATED SLUDGE, LIMITED, and ACTIVATED SLUDGE, INC.,
Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

OPINIONS OF THE COURTS BELOW.

The District Court for the Northern District of Illinois, Eastern Division, filed on July 5, 1940 a memorandum opinion and order which has been reported in 33 Fed. Supp. 692 (R. II—885).

The opinion of the Court of Appeals for the Seventh Circuit has not yet been reported in the official reporter but is reproduced in the record (R. II—920).

JURISDICTION.

The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code as amended by an Act of February 13, 1925 c. 229 (28 U. S. C. A. Sec. 347). The decree of the Court of Appeals which petitioner seeks to have reviewed was entered March 27, 1941 (R. II—920).

STATEMENT OF THE CASE.

In order to appreciate the full extent of the reprehensible conduct of respondents in seeking to suppress and conceal from petitioner and courts evidence which might have affected the result of this suit and in order to understand that respondents came into court with unclean hands due to their association with Dilling, the former Chief Engineer of petitioner, and in order to make it clear that respondents' concealment of Dilling led them to plead and rely on a false chain of title, it would be necessary to present a fuller statement of the facts than is set forth in the foregoing petition (pp. 4-10) but for the sake of brevity we refrain from a more detailed statement and again make reference to the Petition sought to be filed which is reproduced in the Record, commencing at page 3.

SPECIFICATION OF ERRORS.

The lower courts erred in denying petitioner's motion to file its Petition to reopen and vacate the interlocutory decree entered herein and to dismiss this suit. If this Court should grant this writ of certiorari, petitioner intends to urge as errors of the lower courts the matters raised in the foregoing Petition under the heading "The Questions Presented" (pp. 11-13).

ARGUMENT.

1. The respondents should be barred from all relief in this suit on account of their sullied conduct in suppressing and concealing evidence from the petitioner and courts and it makes no difference that such evidence, if it had been known to and introduced by petitioner during the trial, might not have affected the result.

The opinions and decisions of the Court of Appeals for the Sixth Circuit (opinions by Judge Hickenlooper) and of this Court in a series of cases instituted by Keystone Driller Co. against The Byers Machine Co., Osgood Co. and General Excavator Company, decisively preclude the respondents from obtaining any relief in this court of equity. These decisions have been hailed as making a salutary extension of the unclean hands doctrine and in requiring of litigants in federal courts of equity a higher standard of conduct. Prior to those decisions it had been generally thought that if a plaintiff concealed or suppressed potential evidence, such conduct would not close the doors of the court to him unless the evidence so suppressed and concealed was material to the issues of the case. The *Keystone Driller Company* cases have declared the law to be otherwise and have decided that a plaintiff's conduct in suppressing evidence—and that conduct alone—precludes him from obtaining any relief and it makes no difference that the evidence sought to be concealed would not have affected the result.

In *Keystone Driller Co.* v. *General Excavator Co., et al.*, 290 U. S. 240, it appeared that plaintiff had earlier filed another suit against The Byers Machine Co. in the North-

ern District of Ohio for infringement of certain patents, including the Downie Patent, which was originally issued to Downie, the principal officer of the plaintiff. The Byers suit resulted in the entry of an injunction and order for accounting (4 F. Supp. 159) and that decision was affirmed by the Court of Appeals for the Sixth Circuit (44 F. (2d) 283). While the Byers case was pending on appeal, the same plaintiff filed these two suits in the same district against General Excavator Co. and Osgood Co. on a number of patents, including the Downie Patent. Motions for temporary injunctions were forthwith made, reference being made to the adjudication of the patents in the Byers case, but these motions were denied upon the defendants' posting bonds. During the trial of these two cases the defendants discovered and introduced evidence that prior to the time Downie applied for his patent he heard of a possible prior use at Joplin, Mo. by one Clutter; that Downie's anxiety as to whether Clutter's prior use might cast serious doubt upon the validity of his patent caused him (after his patent was issued) to find Clutter; and that for a consideration promised or paid to Clutter, Clutter signed an affidavit that this Joplin use was only an abandoned experiment and Clutter agreed to keep his work secret. Although the District Judge characterized Downie's conduct as "highly reprehensible," he found that there was no suppression of any *material* evidence and entered decrees for the plaintiff.

On appeal the Court of Appeals for the Sixth Circuit reversed the District Court and held that inasmuch as the plaintiff tried to suppress evidence which caused it anxiety as to the soundness of its own case, the plaintiff was guilty of such reprehensible conduct that the doors of the court of equity were closed to it. The court said (62 F. (2d) 48, 50):

"The next insistence of the plaintiff is that the alleged misconduct should not be held to constitute a bar since it related to an immaterial matter; the Joplin use being in truth and in fact but an abandoned experiment. * * * This seems to us to be immaterial. We are not here and now concerned with a question of anticipation, but of conduct, and certain it is that there was enough in the information communicated to Downie to cause uncertainty and anxiety to him and to the plaintiff, and to bring about the action finally taken. If the conduct was reprehensible, it matters not that it was really unnecessary.

The plaintiff also contends that neither in the Byers Case nor in the present cases was there any obligation upon it to make disclosure of those possible prior uses which might affect the validity of the patents which it owned. This is true; but there was an obligation, in all righteousness and good conscience, not to do that which was done—not to build up a defense against the supposed prior use by buying an affidavit phrased as plaintiff wished it to be phrased, and possibly not in strict accord with the facts, by purchasing Clutter's silence, or at least making him an adverse witness for others, * * *"

On petition for rehearing in the same cases, the court reiterated that its decision was based on the plaintiff's sullied conduct in trying to suppress evidence and not on the sufficiency of such evidence as a meritorious defense in the cases and said (64 F. (2d) 39, 40):

"The doctrine which we have applied is simply that if one, as actor, seeks to set the judicial machinery in a court of equity in motion upon grounds in respect to which his conduct is sullied, he will find the doors of the court closed against him. The bar is said to be 'in limine'. The plaintiff is repelled as of the date of the filing of the bill and in respect of the maintenance of the action then instituted, because he does not then appeal to the court as one in whose behalf the largely discretionary powers of the court should be exercised. The fact that delay is thereby occasioned, or that the plaintiff has thereby suffered

> a loss of time and expense, is immaterial. The court has simply said: 'We will not hear you in this action although, not being a general avenger of the wrongs of humanity, it may be that you will not be in the future, and would not have been in the past, repelled on account of your conduct.'
>
> The opinion already rendered sufficiently answers the contention that the reprehensible conduct was not really necessary and the Joplin use was not really an anticipation."

In its argument before this Court in the *Keystone Driller Co.* case the plaintiff apparently accepted the opinion of Judge Hickenlooper as accurately stating the law and argued that its reprehensible conduct related only to one of the five patents in suit so that the other four separate causes of action should not be barred on account of its unclean hands in connection with one. This Court said (290 U. S. 240, 244):

> "Plaintiff contends that the maxim does not apply unless the wrongful conduct is directly connected with and material to the matter in litigation and that, where more than one cause is joined in a bill and plaintiff is shown to have come with unclean hands in respect of only one of them, the others will not be dismissed."

This Court answered that contention by pointing out that the five patents were so interrelated that plaintiff's sullied conduct in regard to one patent sullied its four other causes of action. That this Court was fully in accord with the opinion of Judge Hickenlooper is made clear by the following language (p. 246):

> "Had the corruption of Clutter been disclosed at the trial of the Byers Case, the court undoubtedly would have been warranted in holding it sufficient to require dismissal of the cause of action there alleged for the infringement of the Downie patent."

As soon as the defendant in the Byers case learned about the disclosures in the other two cases concerning the attempted suppression of evidence regarding Clutter's prior use, but before the appeals in those cases were decided, the defendant in the Byers case obtained an order from the Court of Appeals directing the District Court to reopen the case for the purpose of receiving and considering evidence regarding the alleged prior use and suppression of evidence relating thereto. This is the same relief sought by petitioner in this proceeding. After considering this new evidence, which was substantially the same evidence on that subject offered in the General Excavator and Osgood Company suits above mentioned, the District Court made findings that while the plaintiff's conduct in trying to suppress the evidence of Clutter's prior use was "inexcusable," it was "wholly unnecessary" because such evidence did not reveal anticipation of the Downie Patent. The District Court concluded that "there was no suppression of evidence materially affecting the defendant's rights" (4 F. Supp. 160). The District Judge certified his findings to the Court of Appeals but no order was entered and neither party took an appeal. The Court of Appeals refused to consider the matter in the absence of any final order or appeal therefrom (63 F. (2d) 996). As soon as the Court of Appeals decided the cases in 62 F. (2d) 48, the defendant in the Byers case moved the District Court to dissolve the injunction and dismiss the suit on the ground that the District Court's decision on the rehearing was contrary to the decision of the Court of Appeals in 62 F. (2d) 48. The District Court, however, refused to follow the decision in 62 F. (2d) 48 and on appeal the Court of Appeals summarily set aside the order of the District Court and remanded the cause with instructions to dismiss it. (71 F. (2d) 1000.) Certiorari to this Court was denied in 293 U. S. 572 and the case was

subsequently dismissed for want of equity by the District Court, which ended the Byers litigation.

The Byers litigation is strictly analogous to the instant case. In the Byers case the plaintiff obtained an interlocutory decree which was affirmed by the Sixth Circuit Court of Appeals. The defendant had no knowledge of its possible defense based on Clutter's prior use and it had no knowledge of plaintiff's activities in concealing Clutter's prior use. Similarly, in this case, the respondents obtained an interlocutory decree which was affirmed by the Circuit Court of Appeals and the petitioner had no knowledge of Dilling's relation to this case or of respondents' conduct in suppressing the true chain of title, the concealed documents and other evidence which might have informed the petitioner of Dilling's relation to the case. Then, through the litigation involving General Excavator Co., Byers learned about Clutter's possible prior use as well as the action of Keystone Driller Co. in suppressing such evidence. Similarly, through the evidence introduced in Dilling's suit against his co-adventurers, we have lately discovered evidence of Dilling's relation to this case as well as the conduct of respondents in concealing such evidence. Byers Machine Co. obtained leave to and did introduce the newly discovered evidence of plaintiff's reprehensible conduct and the evidence of Clutter's prior use. Despite the prior decision in the *General Excavator Co. case,* the District Court held that the evidence of Clutter's prior use was insufficient to establish a defense and consequently the evidence of plaintiff's reprehensible conduct was immaterial (4 Fed. Supp. 160).

Similarly, in this case, we obtained leave from the Court of Appeals to present our Petition for filing to the District Court and the District Court (without hearing any evidence) found that the Petition did not offer to introduce

any material evidence, despite the decision in the *Keystone Driller Co.* cases that the immateriality of the suppressed evidence was of no importance. Upon appeal of Byers Machine Co. the Sixth Circuit Court of Appeals summarily reversed the District Judge (71 F. (2d) 1000) and certiorari was denied (293 U. S. 572). Similarly, in this case, we ask this Court to reverse the lower courts and direct that our Petition be filed and that evidence be taken thereon.

It should be noted that the evidence which Keystone Driller Co. sought to suppress related to a *possible* prior use and that the District Court held that such evidence was insufficient to prove prior use. The courts of review did not question the District Court's decision as to the immateriality of the evidence sought to be suppressed but held that plaintiff's conduct, having for its purpose the suppression of such evidence—and that conduct alone—precluded it from obtaining any relief.

The decisions below in this case are in irreconcilable conflict with the decisions in the *Keystone Driller Co.* cases. The District Court's opinion, which was apparently adopted by the Court of Appeals, concludes (R. II—899):

> "* * * finally that the new evidence is not competent, relevant or material, and that if it were produced and received it would in no wise justify a reopening of the decree."

The lower courts completely overlooked the force of the *Keystone Driller Co.* cases in deciding that even though the newly discovered evidence would furnish petitioner with no defense of unclean hands arising out of Dilling's relation to the suit, respondents' conduct, in attempting to suppress and conceal such evidence, in itself constitutes a bar to recovery in this suit. We ask this

Court to require the Seventh Circuit Court of Appeals to recognize and apply to this suit the commendable principles enunciated in the *Keystone Driller Co.* cases.

2. The respondents should be barred from all relief in this suit for the reason that it was instigated and prosecuted through the action of A. W. Dilling, former Chief Engineer of petitioner, who learned about the activated sludge patents, the sewage disposal plants found herein to infringe said patents and petitioner's vulnerability to patent litigation during his employment by petitioner.

If Dilling, during the period of his employment by petitioner, had organized a syndicate which acquired the patents in suit and caused this case to be filed against his employer, it is clear that Dilling and his associates would not be permitted to maintain their suit and it would be dismissed (*American Circular Loom Co.* v. *Wilson,* 198 Mass. 182, 84 N. E. 133, 135). Should a different result obtain by reason of the fact that Dilling's employment terminated shortly prior to the time he organized the syndicate which acquired the patents for this territory in order to bring this suit?

Trice v. *Comstock,* 121 Fed. 620 (C. C. A. 8), is a leading case holding that the duty of an employee to be true and faithful to his employer "is as sacred and inviolable after as before the expiration" of his employment (p. 625) so that an employee cannot, after his employment ceases, take advantage of information acquired by him during his employment to prevent his former employer from accomplishing certain of the purposes of their relationship. In that case the plaintiffs were in the business of finding purchasers to buy real estate which they held under options or bought after they found customers. The plaintiffs hired the defendant, Comstock, to procure

prospective purchasers and Comstock showed the property to various prospects. Then the defendant terminated his agency and although the plaintiffs were still trying to sell the property, the defendant, Comstock, and his brother, purchased it from the owners. The court held that the defendants, Comstock and his brother, held the title in trust for the plaintiffs. The court relied on basic principles of public policy and said (pp. 622-623):

> "For reasons of public policy, founded in a profound knowledge of the human intellect and of the motives that inspire the actions of men, the law peremptorily forbids every one who, in a fiduciary relation, has acquired information concerning or interest in the business or property of his correlate from using that knowledge or interest to prevent the latter from accomplishing the purpose of the relation. * * * This inexorable principle of the law is not based upon, nor conditioned by, the respective interests or powers of the parties to the relation, the times when that relation commences or terminates, or the injury or damage which the betrayal of the confidence given entails. It rests upon a broader foundation, upon that sagacious public policy which, for the purpose of removing all temptation, removes all possibility that a trustee may derive profit from the subject-matter of his trust, so that one whose confidence has been betrayed may enforce the trust which arises under this rule of law although he has sustained no damage, although the confidential relation has terminated before the trust was betrayed, although he had no legal or equitable interest in the property, and although his correlate who acquired it had no joint interest in or discretionary power over it. The only indispensable elements of a good cause of action to enforce such a trust are the fiduciary relation and the use by one of the parties to it of the knowledge or the interest he acquired through it to prevent the other from accomplishing the purpose of the relation."

In repudiating the argument that the termination of

the agency terminated the agent's duty of loyalty to his former employer, the court said (p. 625):

> "Nor is it any defense to the suit to enforce this trust that the agency had terminated before the confidence was violated. The duty of an attorney to be true to his client, or of an agent to be faithful to his principal, does not cease when the employment ends, and it cannot be renounced at will by the termination of the relation. It is as sacred and inviolable after as before the expiration of its term."

The value of *Trice* v. *Comstock* is enhanced by respondents' admission that "that decision is, of course, clearly right" (their brief filed below April 19, 1940, p. 80). Respondents' only answer to *Trice* v. *Comstock* is that the facts are different in this case. Another quotation from *Trice* v. *Comstock* will make manifest how close the facts in that case are to this one (p. 624):

> "By means of this agency he learned what he probably never would have known otherwise, the location, quality, value, products, and probable income of the 1,925 acres of land in controversy. One of the objects of the agency which the complainants gave him was to enable them to sell this land. The subsequent purchase of it by Comstock prevented the accomplishment of this end. Could he lawfully take the information and advantages which Trice and Beamer conferred upon him through this agency to the end that they might make a sale of this land by means of his services under it, and then use this information and these advantages to make such a sale impossible, to deprive his principals of all the benefits which they hoped to derive from the payment of his expenses, and the exhibition of this land to the possible customer? Could he lawfully appropriate to himself the land and all the benefits derived and expected from the agency? The answers to these questions do not seem to be difficult or doubtful. The law imposed upon this agent, Comstock, the duty to use all the knowledge and all the benefits he derived from his agency to accomplish

the purpose of his principals, and it implied an agreement on his part that he would faithfully discharge this duty."

Applying the facts in this case to the first part of the foregoing quotation, the language therein may be paraphrased as follows:

> By means of this agency Dilling learned what he probably never would have known otherwise,—the nature, value, utility and probable infringement by the activated sludge plants in controversy of the patents in suit. One of the objects of the agency between the Sanitary District and Dilling was that plants of this character as recommended, laid out, planned or constructed, should not be the subject of future patent or other litigation. The subsequent purchase of the patents in suit by Dilling and institution of this suit against his former employer were an effort by Dilling to prevent the accomplishment of this object. Could Dilling lawfully take the information and advantages which the Sanitary District conferred upon him through this agency to the end that the Sanitary District might construct activated sludge plants free of claims and demands for alleged patent liability and then use this information and these advantages to make such an object impossible? The answers to these questions do not seem to be difficult or doubtful.

Trice v. *Comstock* has been cited in over seventy-five other cases without disapproval and its reasoning is irrefutable. Dilling's conduct in acquiring an interest in the patents in suit and causing a "campaign" to be waged against his former employer which resulted in the filing of this suit is nonetheless reprehensible and shocking to a court of equity merely because his agency terminated a few months before he went to London on his hostile venture. The English owners of the patents in suit were always friendly and had expressed their willingness to license petitioner on a reasonable royalty basis

(R. II--803, 825, 833, 838) and the petitioner was entitled to have that situation remain undisturbed by the activities of its former Chief Engineer, using the knowledge he secured as Chief Engineer, in acquiring an interest in the patents and actually bringing about the filing of this litigation.

The lower courts in their opinions make no reference to *Trice* v. *Comstock*. The decisions below are in hopeless conflict with the decision of the Eighth Circuit Court of Appeals in *Trice* v. *Comstock*. We urge this Court to direct the Seventh Circuit Court of Appeals to apply to this case the salutary principles enunciated in *Trice* v. *Comstock*.

3. Even though it may be argued that Activated Sludge, Limited or Activated Sludge, Inc. is the equitable owner of the patents in suit (which is not true), it is well-settled that the equitable owner of patents cannot maintain a suit for their infringement.

The District Court concluded (R. II-891-2) that although Activated Sludge, Limited, may not have acquired legal title to the patents by virtue of the agreements executed on January 27, 1927, those agreements, when read together, indicate an intention to transfer the title to Activated Sludge, Ltd. and, despite the fact that such intention was not carried out in any agreement, Activated Sludge, Ltd. should, in equity, be considered the title owner.

That the plaintiff in a patent infringement suit must be the legal and not merely the equitable owner of the patent in suit is held in *Crown Dye & Tool Co.* v. *Nye Tool & Machine Works*, 261 U. S. 24, in which Chief Justice Taft said (pp. 40, 43, 44):

"The law as to who should bring a suit at law for damages by infringement of a patent is clearly and correctly stated in Robinson on Patents, Vol. 3, Sec. 937, as follows:

'With a single exception the plaintiff in an action at law must be the person or persons in whom the legal title to the patent resided at the time of the infringement. An infringement is an invasion of the monopoly created by the patent, and the law which defines and authorizes this monopoly confers only upon its legal owners the right to institute proceedings for its violation. These owners are the patentee, his assignee, his grantee, or his personal representatives; and none but these are able to maintain an action for infringement in a court of law.'

* * * * *

But it is urged that, under Equity Rule 37, every action must be prosecuted in the name of the real party in interest; and, therefore, as the plaintiff is the beneficial owner of the claims for past infringements, it should be permitted to sue in a court of equity. The equity rule was not intended to set aside a policy and rule having its source in the patent statutes, and cannot affect this case. The rule laid down by Circuit Judge Blatchford in *Gordon* v. *Anthony, supra,* applied to both actions in equity and law, and grew out of the sections of statutes quoted by him and not since amended.

* * * * *

As the owner of the patent is not a party to this bill, the result is that on no ground can the bill of the plaintiff be sustained, and that the motion to dismiss should have been granted."

From the foregoing it follows that Activated Sludge, Ltd. failed to become reinvested with the legal title to the patents in suit and if it became the equitable owner of the patents, such equitable interest was not sufficient to maintain this suit. Activated Sludge Processes of America, the Massachusetts Trust, owned the title to these patents for the State of Illinois when this suit was commenced, when the supplemental bill was filed and

when the interlocutory decree was entered herein. The only reason why Activated Sludge Processes of America was not made the plaintiff in this case was that Dilling owned one-fourth of the beneficial interest therein and it was feared that petitioner might thereby learn the important role played by its former Chief Engineer in the institution of this litigation.

4. The opinions below reveal that the lower courts failed to comprehend the basic issues.

That the Court of Appeals completely misapprehended the Record and the proceedings below is at once made apparent by its erroneous statement that the District Court heard "voluminous evidence" (R. II—920). Contrary to the mistaken assertion of the Court of Appeals, the District Court heard not a word of evidence and petitioner was not allowed to take the testimony of any witnesses.

The failure of the Court of Appeals to appreciate the significance of the *Keystone Driller Co.* cases is further indicated by its statement that the District Court "decided every question presented here in accordance with our views" (R. II—920). The fact is that whereas the *Keystone Driller Co.* case was presented to both of the lower courts, their opinions fail to disclose that they gave any consideration whatsoever to that case or the principles therein decided.

A case of such moment as this one and involving such flagrant disregard of ethical standards promulgated by this Court for litigants seeking affirmative relief in equity, is deserving of more considered study by the Court of Appeals than is shown by its opinion (R. II—920).

Respectfully submitted,

ERNST BUEHLER,
EDMUND D. ADCOCK,
RALPH M. SNYDER,
ARTHUR C. DENISON,
WALLACE R. LANE,
ELI E. FINK,
Counsel for Defendant-Petitioner.